



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 2/24/2005

**GAIN Report Number:** E35034

## EU-25

### Agricultural Situation

#### What happened during the Fischler era?

#### 2005

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**Report Highlights:**

This report summarizes the agricultural situation and policy during Franz Fischler's time as Agriculture Commissioner. During this time, two enlargements of the European Union took place as well as two major reforms of the Common Agriculture Policy (CAP) - Agenda 2000 and the 2003 CAP reform. It is also during this time that the US-EU trade balance changed to a negative balance for the US.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Brussels USEU [BE2]  
[E3]

**Introduction**

Mr. Franz Fischler, a former Austrian minister of agriculture, was EU Commissioner for Agriculture and Fisheries for the period 1995-2004. When he stepped down, he had been piloting the CAP for about a quarter of its entire 40-year history.

During this period, several big changes took place in the European Union. In 1995 the union grew from twelve to fifteen countries, as Sweden, Finland and Austria joined the union. And in 2004 another enlargement with ten additional new member states (NMS) took place.

These big changes of the European Union obviously required big changes also in the agriculture policy, and during Fischler's period of time there have been two major CAP reforms, the Agenda 2000, and the CAP reform of 2003.

In the 1990's there was also a reversal in trade balance between the US and the EU, changing from a positive balance to a negative balance for the US.

**The Agricultural Policy of the European Union**

In 1995, when Fischler took office, the EU agricultural policy had already undergone some big changes. In the MacSharry reforms of 1992, the concept of direct aid payments in return for support price cuts was introduced for the first time, and member states were struggling with novelties like IACS (Integrated Administration and Control System) and set-aside land.

1995 was also the year when the Uruguay Round Agreement, which was to reform and facilitate trade in the agriculture sector, entered into force.

One important factor that persuaded Fischler that future reforms on agriculture needed to change focus from production to quality and safety was the BSE crisis that evolved in 1996.

In 1992, before the MacSharry reform, 0.61 percent of the EU's total GDP was spent on the agricultural policy. This amount is now down to 0.45 percent and the Commission's financial framework aims at getting it down to just one third of 1 percent in 10 years time.

**Pre Agenda 2000**

In the early 1990s, agricultural policies were production-oriented and rural development policies (RDP) were rather a complement and not a mainstream element of agricultural policy. RDP was supposed to support the modernization of agriculture through structural change and by implementing complementary policies.

The 1992 MacSharry reform of the CAP had three accompanying measures:

- The agri-environmental measures
- Early retirement schemes for farmers
- The afforestation of agricultural land

**Agenda 2000**

In 1999, the Agenda 2000 was adopted, a package of reforms to the cereals, beef and dairy sectors, which was designed in part to prepare the EU for enlargement. However it was substantially watered down at the very last minute by the EU heads of government. However in this agreement Fischler got commitment to a "mid-term review" that would take place in 2002-2003. It is this mid term review that turned out as the 2003 CAP reform.

With the Agenda 2000 CAP reform came the birth of the Rural Development Program as the second pillar of the CAP. The Rural Development Program increased the financial commitments in these areas and became a program aiming at increasing the competitiveness of European agriculture and integrates environmental concerns and prepares for enlargement. This program also helped to change the view of agriculture and

rural areas as not only producers of agricultural commodities but also as producers of environmental and social goods.

### **CAP 2003**

In 2001 a decision was taken to launch a new WTO round, the Doha Development agenda. This would comprise further trade liberalization and commitments to strengthen the capacity of developing countries. The Doha round was one of the reasons for a more comprehensive reform of the CAP to take place in 2003.

For the Least Developed Countries the European Union also has an agreement called "Everything but arms" (EBA), which says that any product, except arms, including agricultural products from these countries can have duty free, and quota free access to the Unions market. There are phase in periods for bananas, rice and sugar. The upcoming liberalization of trade in rice and sugar in particular under EBA were another factor in the 2003 CAP reform and the upcoming reform of the sugar sector.

On June 26, 2003 the Commission agreed on the 2003 Cap Reform and adopted it on September 29 of the same year. The reform provides a series of policy changes to address issues ranging from removing trade distortions to improving rural development and agri-environmental policy.

The most important elements are:

- A single farm payment for EU farmers, independent from production; limited coupled elements may be maintained to avoid abandonment of production.
- This payment will be linked to the respect of environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance"),
- A strengthened rural development policy with more EU money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005,
- A reduction in direct payments ("modulation") for bigger farms to finance the new rural development policy,
- A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot,
- Revisions to the market policy of the CAP:
  - Asymmetric price cuts in the milk sector: The intervention price for butter will be reduced by 25 percent over four years, which is an additional price cut of 10 percent compared to Agenda 2000, for skimmed milk powder a 15 percent reduction over three years, as agreed in Agenda 2000, is retained.
  - Reduction of the monthly increments in the cereals sector by half, the current intervention price will be maintained.
  - Reforms in the rice, durum wheat, nuts, starch potatoes and dried fodder sectors

The intervention price cuts will lower intervention prices for rice and dairy. Cross-compliance is a set of environmental and animal and plant health regulations that must be adhered to in order to receive farmer assistance. To move toward sustainable development modulation will gradually decrease the overall level of direct aid and require that the money be used for rural development instead. In addition, the reform requires a Farm Advisory System be implemented to assist farmers on land and farm management. Starting in 2007, financial discipline requires that all direct payments be reduced when CAP expenditure is within €300 million of the budget ceiling.

The 2003 CAP Reform decreases commodity-specific aid. The reform decouples payments for arable crops, beef, sheep and goats, dairy, tobacco, olive oil, and hops. However, there are many commodities that remain coupled. Examples of such commodities include: drying aid for cereals, durum wheat quality premium, protein crop supplement, crop-specific payments for rice, flax, potato starch processing, and dried fodder processing. Fruit, vegetable, and wine payments are not affected by the reform. Neither is the sugar support scheme. Quota systems and maximum guaranteed areas remain in place. Moreover, even those commodities that are decoupled are allowed to maintain, in most cases, some coupled payments.

To read more about the CAP reform see [GAIN E34044](#).

### Trade US-EU and EU-US

EU- 15 imports of agricultural products, millions of USD							
	1997	1998	1999	2000	2001	2002	2003
World	63,274	62,163	57,548	54,432	56,009	59,262	69,753
United States	9,845	9,265	7,907	7,752	7,386	7,245	7,892

Source: GTIS

EU- 15 exports of agricultural products, millions of USD							
	1997	1998	1999	2000	2001	2002	2003
World	60,130	58,144	54,676	53,783	53,922	58,487	68,832
United States	8,434	9,074	9,557	9,605	9,663	11,014	13,753

Source: GTIS

US\$ - EURO historical exchange rate (1 US \$)							
1-Feb-97	1-Feb-98	1-Jan-99	1-Jan-00	1-Jan-01	1-Jan-02	1-Jan-03	1-Jan-04
0.798	0.913	0.857	0.993	1.062	1.122	0.953	0.795

Source: Oanda and Jeico

Comparing the tables of trade between the EU and the US there has been quite a big change during the last decade. The value of products imported from the US to the EU has gone down, whereas the value of the products going from the EU to the US has been increasing remarkably, especially the last two years. This is noticeable since the dollar has been losing in value towards the Euro most recently.

When comparing products, the imports and exports going to and from the EU, it shows that of the ten most important (in value) products being exported from the EU to the US, all of those have increased. For products exported from the US to the EU, out of the ten most important, seven have decreased and three have increased. The US imports more and more consumer-ready, high value products from the EU.

EU15 (External Trade) Import Statistics From United States								
Commodity: Agri Products, 1 to 24 not 3. 1601 and 1602 only plus others post 24								
Annual Series: 1997 - 2003								
CN-code	Description	Millions United States Dollars						
	WTO definition of agricultural products	1997	1998	1999	2000	2001	2002	2003
Agri Prod.	Total	9,845	9,265	7,907	7,752	7,386	7,245	7,892
12	Oil Seeds Etc.; Misc Grain, Seed, Fruit, Plant Etc	2,760	2,220	1,728	1,786	1,627	1,811	1,903
08	Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	1,047	1,046	947	838	804	869	1,081
23	Food Industry Residues & Waste; Prep Animal Feed	1,461	1,385	966	892	869	785	770
22	Beverages, Spirits And Vinegar	474	564	603	588	721	633	768
24	Tobacco And Manufactured Tobacco Substitutes	837	886	913	887	800	694	669
10	Cereals	755	632	497	467	448	462	573
21	Miscellaneous Edible Preparations	201	232	257	301	308	299	310
20	Prep Vegetables, Fruit, Nuts Or Other Plant Parts	241	268	264	224	180	181	197
01	Live Animals	141	144	179	314	221	178	189
07	Edible Vegetables & Certain Roots & Tubers	227	240	203	175	160	135	146
	Others	1,701	1,649	1,351	1,285	1,249	1,197	1,285

Source: GTIS

EU15 (External Trade) Export Statistics To United States								
Commodity: Agri Products, 1 to 24 not 3. 1601 and 1602 only plus others post 24								
Annual Series: 1997 - 2003								
CN-code	Description	Millions United States Dollars						
	WTO definition of agricultural products	1997	1998	1999	2000	2001	2002	2003
Agri Products	Total	8,434	9,074	9,557	9,605	9,663	11,014	13,753
22	Beverages, Spirits And Vinegar	3,825	4,100	4,565	4,590	4,778	5,584	6,641
330210	Mixtures Odoriferous Substance Use Food/ Drink Ind	64	50	62	32	32	37	985*
04	Dairy Prods; Birds Eggs; Honey; Ed Animal Pr Nesoi	385	419	452	438	473	516	607
20	Prep Vegetables, Fruit, Nuts Or Other Plant Parts	453	489	537	537	505	558	587
15	Animal Or Vegetable Fats, Oils Etc. & Waxes	406	346	345	442	384	488	564
19	Prep Cereal, Flour, Starch Or Milk; Bakers Wares	423	498	485	461	474	531	561
18	Cocoa And Cocoa Preparations	238	262	270	287	341	396	481
06	Live Trees, Plants, Bulbs Etc.; Cut Flowers Etc.	183	241	249	297	277	332	360
21	Miscellaneous Edible Preparations	159	165	215	187	159	231	318
09	Coffee, Tea, Mate & Spices	325	344	280	242	214	232	289
01	Live Animals	137	158	207	239	252	225	257
02	Meat And Edible Meat Offal	144	163	153	192	179	178	238
	Other	1,755	1,888	1,798	1,692	1,626	1,744	1,861

Source: GTIS

\* This number is due to the building of a new factory for soft drink concentrate in Ireland.

The increase in value for beverages that are exported from the EU to the US are mainly due to exports of "wine of fresh grapes; grape must nesoi." As of 2002 there is also been an increase in the value of imports of whiskeys to the US. The increase for dairy products is primarily due to bigger imports of cheese, mainly "Cheese, Nesoi, including cheddar and Colby".

## Export subsidies

The European Union uses export subsidies to support its exports. The amount of such subsidies has fallen from 25 percent of the value of farm exports in 1992 to 5,2 percent in 2001. In absolute terms, this represents a reduction from €10 billion to €2,8 billion.

The EU and the majority of the WTO members share the objective of eliminating all forms of export support in the current Doha round negotiations. However, the remaining export subsidies used by the EU continue to have an impact on trade.

## EU Export subsidies for certain Commodities

Commodity	Appropriations 2004 (million Euro)	Appropriations 2003 (million Euro)	Outturn 2002 (million Euro)
Cereals	174	104	99.3
Rice	32	32	41.0
Sugar and Isoglucose	1,285	1,257	1,168
Olive oil	p.m.	p.m.	92.0
Fruit and vegetables	39	38	46.4
Products of the wine growing sector	26	25	23.8
Milk and Milk products	1,731	1,568	1,159
Beef and veal	308	457	330.9
Pig meat	38	78	27.3
Eggs	9	8	5.9
Poultry meat	106	91	71.1

Source: European Commission

## Commodities

During the past 10 years while Commissioner Fischler has been in charge of EU Agriculture, changes to agricultural policy and trade policy have had effects at the individual commodity level. Below are effects of particular interest to the agricultural trade interests of the US.

## Cereals

Since 1992, cereals have been eligible for a hectare-based Community aid scheme, which also includes "set-aside" measures for withdrawing land from cultivation.

In the cereals sector internal prices are, on average, still higher than world prices.

Depending on world market conditions, this can still make it difficult to export European cereal crops and products processed from them without subsidies.

As a result of the lower intervention price, variable import duties for certain cereals have also been lowered over the same period, to the benefit of trading partners, including the US.

Therefore, in 2002, the EU decided to change the import regime for cereals to replace the variable duty with a tariff rate quota. The US and other key trading partners were able to reject this approach for all cereals except medium and low quality wheat and barley. The EU instituted tariff rate quotas for medium and low quality wheat and barley starting in January 2003.

The production of wheat in the EU15 has increased from 90 million tons in 1994/95 to 107 million tons in 2004/05. Feed use has increased from 35 to 44 million tons, and imports from 2.5 to 5 million tons. The big increase in feed use is caused by a lower intervention price for wheat, and a need for a feed with high protein content now that it is no longer possible to provide the proteins the animals need by giving them meat and bone meal (MBM). Increased use of cereals in feed has also led to less demand for imports of non-grain feed ingredients, such as food industry waste.

The US also used to export a large amount of corn to Europe, but this trade has been cut off since 1998 due to the EU's restrictions on products of biotechnology.

### **Oilseeds**

The most important oilseed in the European Union is rapeseed. The production of rapeseed in the EU15 has increased from 8.3 million tons in 1994/95 to 10.3 million tons in 2004/05. In the same period of time the soybean imports have increased from 14.5 to 17.5 million tons and the soymeal from 13 to 22.7 million tons. Most of the soybeans used to come from the US but now a Brazil and Argentina are taking a bigger part of the market. This is partly due to the EU's biotech policy, along with other factors. The increase in soymeal imports is also caused by the need for feed with a good protein content caused by the ban on MBM's.

The European Commission has set a goal that by the end of 2005, 2 percent of the energy used in transportation shall be biofuels. The use of biofuels is then to increase by 0,75 percent annually to attain 5,75 percent biofuels by 2010.

In the European Union the most important biofuel is biodiesel, which accounts for about 80 percent of the biofuels used for transportation. Unlike the US where the biodiesel is produced from soybean, the European Union uses rapeseed, and to some extent sunflower seed to produce its biodiesel.

The European Commission has published a guideline in compliance with the "Comité Européen de Normalisation" CEN Standardization (EN14214) in order to ensure quality and performance of biodiesel. The guidelines in this publication make it more difficult to use soybean oil as a base for the biodiesel in Europe

### **Wine**

Beverages, spirits and vinegar is, by far, the most important product in value that the EU exports to the US and one of the most important that the US exports to the EU. However, while the EU enjoys relatively unrestricted access to the US market, the US faces tariff and non-tariff barriers affecting wine exports to the EU. In order to address some of these concerns, the U.S. and the EU have been in bilateral discussions on wine for over 10 years. Exports of some U.S. wine to the EU continue under derogations permitting certain U.S. oenological practices, which would otherwise be prohibited. The derogation for U.S. wine making practices and certification is now set to expire in December 2005.

The European Union occupies a leading position on the world wine market, accounting for 45 percent of wine-growing areas, 65 percent of production, 57 percent of global consumption and 70 percent of exports in global terms.

The tariffs for importing wine to the EU compared to tariffs for importing wine to the US are of different value. The tariffs for importing wines (not carbonated in containers not over 2 liters) to the US are \$0.063/liter while the tariffs for importing wine to the EU are €13.1/hl (€0.131/liter).

The CAP 2003 did not affect the wine sector subsidies for farmers, and these payments remain coupled. In the EU new plantings of wine grapes are prohibited until 2010 except under certain circumstances. Furthermore, wine producers can receive an abandonment premia. Other subsidies available are private storage aid (PSA), which is currently €0.01544 for table wine. When PSA is not enough to balance the market, the Commission may carry out distillation. Producers of wine are then paid by distillers who receive a distillation aid providing the distillate has an alcoholic strength of at least 52 percent of volume. Export subsidies are also available, but they are fixed periodically according to the degree of the world price movements, the market situation in EU and transport costs to the ports.

**Rice**

A first reform of the rice market organization took place in 1995. In this reform the intervention price was decreased by 15 percent, and a national base area was established for each rice-producing member state.

As part of the CAP reform of 2003, the intervention price was further reduced and the EU decided to change its import regime for rice to prevent trading partners from benefiting from the lower duties which would have resulted from the lower intervention price. The U.S. and other trading partners are strongly opposed to this change and are currently in discussions with the EU regarding compensation.

**Cotton**

Reforms in what is called the Mediterranean products, cotton, tobacco and olive oil were also made in the CAP. The approach taken is of decoupling aid payments into single farm payment. The Mediterranean products are particularly sensitive in the EU since the areas where they are cultivated are highly dependant on the revenue (and subsidies) granted for these products.

For cotton 60 percent of the producer support expenditure would go into single farm payment, and the remaining 40 percent would remain in national envelopes to be used for a new area payment. The area under cotton production in the European Union has diminished from 440,000 ha in 1995 to 380,000 ha today.

**Forestry**

Comprehensive forestry strategy: In December 1998 a first strategy of the Commission for the protection, the sustainable economic utilization and development of forests in the EU was presented. The strategy stressed the multi-functionality and diversity of European forests.

FLEGT stands for Forest Law Enforcement, Governance and Trade. It is the European Unions way of addressing the growing problem of illegal logging and trade in assorted timber products. FLEGT also aims to strengthen international co-operation to address violations of forest law. Products covered in FLEGT are logs, sawn wood, veneer sheets and plywood.

In May 2003 the FLEGT action plan was adopted. The action plan sets out a range of measures that aim to combat the problem of illegal logging, these include support for improved governance and capacity building in timber producing countries, development of Voluntary Partnership Agreements with timber-producing countries to prevent illegally produced timber from entering the EU market and efforts to reduce the EU's consumption of illegally harvested timber as well as to discourage investments by EU institutions that may encourage illegal logging.

**Fisheries**

2002 was a crucial year for the reform of the EU's Common Fisheries Policy (CFP). The publication in 2001 of a Green Paper which painted a very bleak picture of the EU's fish stocks and the resulting debate on the future of the CFP, revealed the failure of the old CFP. Critical internal weaknesses such as the alarming state of many fish stocks due to over-exploitation, over-capacity of the EU fleet, insufficient control and enforcement arrangements, failure to involve the industry, a misguided aid policy and the sector's economic fragility called for a thorough reform. New measures were adopted in 2002 and entered into force on January 1, 2003. The key features of the new CFP are:

- A conservation policy for the management of fisheries resources and the activities of the EU fishing fleet.
- A control policy aiming for strengthened and harmonized enforcement of the rules.

- A structural policy providing financial aid to the fishing industry.
- An external policy allowing the management of fisheries resources beyond EU waters.
  - Increased involvement of fishermen and stakeholders in managing the CFP.

### **Dairy products**

In the CAP reform of 2003, four yearly price cuts from 2004 to 2007 in the intervention prices for butter and skimmed milk powder (SMP) have been approved. This is expected to result in lower prices for raw milk and most dairy products. Farmers will be compensated with direct payments. Dairy prices are expected to gradually come more in line with world market prices, thus reducing the need for export subsidies. The milk production is expected to remain stable and domestic consumption is expected to increase, especially for cheeses and yogurts. As a result oversupply of milk will decrease, and dairies are expected to shift their production output to these higher value-added products.

### **Beef**

To overcome the BSE crisis in the beef markets, the European Commission decided to switch the intervention stock buying to a PSA scheme in 2002. Subsidies to farmers are also being decoupled as part of the 2003 CAP reform. This has resulted in a significant decrease in beef production, leaving the EU as a net beef importer.

In 2003, the European Parliament and Council signed Directive 2003/74/EC amending Council Directive 96/22/EC concerning the prohibition of the use of growth-promoting substances in food-producing animals. The directive restates old EU positions on the use of hormonal substances and of beta-agonists. The Directive, however, specifically finalizes the prohibition of estradiol-17 $\beta$  for growth promotion purposes, and continues provisionally the prohibition on the remaining 5 natural and synthetic hormones (testosterone, progesterone, zeranol, trenbolone acetate and melengestrol acetate) while the Community seeks more complete scientific information. The Commission believes the scientific opinion on which this directive is based fulfills the obligation to the WTO and that the US must now lift its trade sanctions.

In 2004, the European Commission requested WTO consultations with the U.S. The U.S. maintains the WTO-authorized sanctions on EU products and does not agree that the EU is in compliance with the WTO ruling, as the EU's position remains unsupported by any scientific rationale. The U.S. and the EU continue to explore possible approaches to resolve this long-standing dispute.

### **Pork**

Despite the pig sector being the most market-oriented EU meat sector, PSA and export refunds are frequently used to control the internal market and to stimulate exports.

Over the past years, the EU pork sector struggled with several outbreaks of Classical Swine Fever and Foot- and Mouth Disease. Environmental restrictions on manure disposal have also hindered the pig sector. However, together with the poultry sector, it benefited from the BSE crises as consumers substituted it for beef.

### **Poultry**

The poultry sector is the most vigorously growing EU meat sector, only hindered by an Avian Influenza outbreak in the Benelux in 2003. This is anticipated to remain the case in the years following the 2004 enlargement as consumers in the New Member States are forecast to increase their poultry meat consumption. This is expected to diminish the oversupply situation with imports increasing and subsidized exports decreasing.

Currently the U.S. is prohibited from using antimicrobial treatments for poultry exports to the EU (Directive 97/79/EC); however, the discussion is now underway to allow for the future use of some AMT's in exports as long as it is part of an integrated strategy to eliminate pathogens throughout the entire production chain.

### **Fruit & Vegetables**

The EU's Fruit & Vegetable regime was reformed in 1996 to tackle specific weaknesses, such as the withdrawal scheme, of the old regime. The 1996 reform reinforced the role of producer organizations, introduced the entry price system and took account of the Uruguay Round accord. New rules were adopted in 2001 in an attempt to simplify the regime. The main changes concerned the setting of a single ceiling to calculate EU aid for the operational funds of producer organizations, modification of the rules for processed tomatoes, peaches and pears and the management of export refunds. The new rules for processed fruits and vegetables, which make the fixing of a minimum price obsolete, had direct implications for the Canned Fruit Agreement. The 1996 reform repealed the 10-year quality and marketing improvement plans for nuts, but it was extended several times. A new support system for nuts was adopted in the 2003 CAP reform.

*Garlic:* Due to China's impending WTO accession, the EU established a general import quota regime to replace the previous arrangement, which restricted imports of garlic from China only. The US Government was not a party to the negotiations because US exports of garlic to the EU are not enough to qualify the US as a "principal supplier" under WTO rules. Based on the conclusions of the negotiations, the EU introduced a system of import licenses and certificates of origin for garlic imported from third countries on May 31, 2001.

### **Future reforms**

Discussion about future changes to EU agricultural policy started under Commissioner Fischler, but will be concluded under his successor, Mariann Fischer-Boel. These include further changes to the rural development regime and reform of the sugar regime.

With the two enlargements of the Union to include states with many people living in poorer rural areas, mountainous areas and in Nordic countries, rural development is gaining more emphasis. This is triggered by the demand of consumer for a more environmentally friendly and sustainable form of agriculture. The amount of money given to the agriculture sector is constant however instead of supporting production, more funds are now supporting food safety, food quality, product differentiation, animal welfare, environmental quality and the conservation of nature and the countryside. The Rural Development Program has also contributed to making organic farming change from being a niche for a few farmers, to becoming one of the CAP's top priorities.

In July 2004, the European Commission published proposals for the reform of the EU's sugar regime. The main thrust of the proposals is for a 2.8 MMT quota cut and a price cut of around one third, partially compensated by direct payments to beet growers. Formal legislative proposals are expected in the spring of 2005. It is expected that the new regime will enter into force in July 2006 when the current regime expires. One of the most controversial areas is whether quotas can be traded across Member State boundaries. This could effectively mean the end of sugar production in the EU's least competitive beet growing areas such as Greece, Italy and Ireland and Portugal.

As reasons for reforming the Sugar regime, the Commission paper cites the increasing market orientation of the CAP following June's CAP Reform Agreement, the potential market imbalances created by the Least Developed Countries tariff free access for sugar from 2009, as well as the potential outcome of WTO challenges to the EU Sugar regime and the eventual outcome of any WTO Agreement.

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